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Our Little Secrets

FRANCO'S SPAIN REVISITED

BY ALEXANDER COCKBURN

In our March 1-15 issue, Agustin Velloso commented on Vicente Navarro's advisory to a young flamenco player wanting to combat nostalgia among his contemporaries about the supposed atmosphere of public safety in the Franco's years and their claims "about how much safer the streets were when Franco was around." Navarro described in some detail the cruelties and terrors of that time, not least in the biography of his own family, as Franco's Inquisition hunted down all dissenters and all those deemed sympathetic to the Republican cause.

Velloso's rejoinder about Navarro's evocation of tyranny, cruelty and fear in the Franco's years argued that "safety in general was greater (except in the postwar years) on condition you were apolitical or pro-Franco".

Here is Navarro's response:

"Agustin Velloso's letter translates an idealized vision of Spain under the fascist dictatorship that is common in conservative circles. It is plain untruth that under Franco you could live with your salary modestly but unmolested. Franco's regime was a class dictatorship against the popular classes and very much against the working class of Spain. The working and living conditions of most Spanish workers, including rural workers, were atrocious. Famine was common and tuberculosis rates were the highest in Europe. It was not until the 60s that the GNP per capita caught up with the equivalent figure of the prewar period. In the cities, unemployment was very high and the salaries of the employed were very low, again, the lowest by far of Europe. Occupational and environmental legislation to protect workers and the environment were was

(**OLS** *continued on page 2)*

Where Is It Going?

The Decline of the Dollar

BY ROBERT POLLIN

There are two mutually contradictory and flawed positions among the US left on the dollar's decline. One is that the dollar's fall is a domestic plus because it helps US exporters, and thus US workers, in export industries. The other position holds that the US economy is on the verge of bankruptcy because we rely on foreigners lending us money. There is some truth in both positions, but since they are mutually contradictory, obviously much more needs to be said. And neither of these positions recognizes the other salient point that, if the dollar's fall is good for US workers, it is bad for European workers, South African workers etc. Here Robert Pollin, author of *Contours of Descent*, a savage assessment of Clintonomics, marks out the ground and a departure point for the left. AC / JSC

Between January 2002 and December 2004, the dollar fell by 34 per cent relative to the euro, and 22 per cent relative to the Japanese yen. The prospect is for the dollar to keep declining at least through 2005, with the only question as to the dollar's trajectory itself being how far down will it go and how quickly it will get there. But this only brings us to the much more difficult question: is the dollar's decline good news or bad news? Figuring this out can get very challenging, especially because answers don't break down neatly along well-defined political lines.

U.S. exporting firms – especially manufacturers – are cheering the dollar's decline, since a cheaper dollar makes them more competitive in global markets. For example, the price of a U.S.-made Ford Taurus falls in terms of euros or yen when they are sold in Europe or Japan, even while their price in terms of dollars – and thus the dollar-denominated profits of Ford Motor Company – stays the same. The increased export competitiveness of Ford also then means more jobs for U.S. autoworkers.

But this same effect is making it harder for other countries to sell in the U.S. The President of the European Central Bank has called the effects of the falling dollar "brutal" for the European economies, which have been barely growing this year. Unemployment in Germany, France and Italy, the three largest economies operating under the so-called "eurozone" averaged nine per cent in 2004.

The effects are even more severely felt in developing countries such as South Africa, Brazil, and Indonesia that are trying to sell in U.S. markets, since their success in selling exports to the U.S. is a major factor determining how quickly these economies can reduce poverty and increase opportunities for decent work. And even in the U.S. itself, where export-oriented businesses are clearly benefiting, the overall effects are not so straightforward. *Money* magazine warned its readers last February that if the dollar keeps falling rapidly, "you could face sky-high mortgage rates and a declining cost of living. In other words, ugly all around."

To sort through these issues, we need to begin by considering the relationship between the declining dollar and the U.S. economy's "twin deficits": first, our fiscal deficit, the fact that the U.S. govern-

(**Dollar** *continued on page 5)*

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(**OLS** *continued from page 1*)

non-existent. When contaminating industries (such as asbestos) were prohibited in the U.S.A., or in Europe they moved en bloc to apartheid South Africa and Franco's Spain. Whose safety is Mr. Velloso making reference to?"

Looking again at Agustin's note, I think he was talking more about rural, peasant Spain than anything else. From my own experience growing up just outside the town of Youghal in rural Catholic Ireland, under the substantive dictatorship of the Catholic hierarchy in the 1950s, you would probably get the same reaction as Velloso's from many Irish people. In those days, elderly farmers and their wives weren't tortured and killed by young thugs looking for cash in their mattresses, and northside Dublin certainly wasn't as dangerous as it is today. On the other hand, though there were no firing squads and torturers, the Hierarchy held public morals and supposedly private morals in medieval intolerance. Single mothers had to flee to London or Boston, along with 100,000 Irish people a year emigrating for lack of work. And later, when the pharmaceutical factories quit an America they deemed to be under Nader's jackboot, they flocked partly to Ringaskiddy, on the estuary of the Lee, which flows through the city of Cork.

CounterPuncher Alya Rea who grew up in Russia in Brezhnev's years remarks that in the 1980s the concept of safety could be interpreted on more than one level. "For common people such as myself who were removed from politics, life in the 1980s was as safe as it could possibly be. Without any reservations, people could go outside in the middle of the night and have no fear of being robbed or stabbed. My personal experience of living in the former Soviet Union can be easily compared to one of growing up in a greenhouse environment, which provided favorable conditions for physical and intellectual nourishment. However, anybody who ventured – either purposefully or inadvertently – to impugn the Communist Party's divinity, was harshly punished for his or her sacrilege. As a result, such 'unfortunate' individuals were ostracized and sent either to the mental asylum, prison, or out of the country. Of course, these facts were not publicized but rather hidden from the public eye in order not to spoil the iridescent picture of socialistic well-being."

As to the sense of international safety, Alya adds that there was no fear of any foreign invasion, as was the case with the U.S.A. during the Cold War. She was greatly surprised to find out that children in the U.S.A. were taught to crawl under their desks in schools across the country, to hide from a nuclear attack, "I am thankful for having had the opportunity to grow up in a country where the paranoid politics of fear were not imposed on its collectivity, as it seems happened before and is still happening in the United States of America nowadays."

Incidentally, we're very grateful to Vicente for his justly savage valedictory for Pope John Paul II, a hugely popular dispatch on the CounterPunch website amid the Pontiff's interment. . Our favorite moment (second-hand) during those rites? The devout Catholic mother of a CounterPuncher, as she watched on tv the phalanx of cardinals, resplendent in their red robes, the massed dignitaries, the vast crowds, the vistas contrived to focus the world's eyes on the transfer of one man's body to the mighty sepulcher of his predecessors, murmured raptly, : "So, so simple. Just as he would have wanted it."

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No Bid, No Sweat

By Jeffrey St. Clair

During the 2004 presidential campaign, the no-bid contracts to rebuild Iraq's oil infrastructure awarded to Dick Cheney's old firm Halliburton seemed to be a more contentious issue than the war. Halliburton's $2.3 billion contract was certainly a sweet deal, made even riper by the fact that Cheney continues to receive millions in deferred compensation from the company he once commanded. But Halliburton's Iraq deal, excoriated by the Democrats and the mainstream press, is a pittance compared to the loot that is being doled out every day in no-bid contracts by the Pentagon.

In the last six years, the Pentagon has outsourced more than $900 billion worth of work to corporations through arms contracts. Of that total, more than $360 billion – or roughly 45 percent – were handed out in no-bid deals.

Most of this loot was awarded to the nation's five biggest contractors: Lockheed got $94 billion, Boeing $82 billion, Raytheon $40 billion, Northrop Grumman and General Dynamics about $34 billion each. These five companies got $283 billion in no-bid deals. This figure represents a third of all defense contracts and 15 per cent of all defense spending.

No-bid contract; risk-free profits. Lockheed, the Pentagon's largest contractor, pulled in more than 70 per cent of its war-based courtesy of no-bid contracts. This figure doesn't include the billions Lockheed gets in from joint-venture deals with the Pentagon, such as its work on the Joint Strike Fighter or Missile Defense. General Dynamics also received more than half of its Pentagon revenue on no-bid contracts.

A spokesman for Lockheed defended the move toward no-bid contracting by saying that it's simply a more efficient way of doing business. "It's not cost-effective for the Defense Department to develop a second source of production," explained Thomas Greer, a Lockheed executive.

At the very time the Pentagon increased the number of no-bid deals, it started to dump its own auditors overseeing compliance with the contracts by the weapons companies. The Pentagon is now outsourcing oversight and monitoring to private accounting firms, such as Booze, Allen Hamilton and Jefferson Solutions. Most of the contracts to monitor the performance of no-bid — contractors were themselves awarded through no-bid— deals. Final scrutiny is probably outsourced to Bangalore, which itself is outsourcing to Eastern Europe. From NATO to ex-Warsaw Pact – in two easy leaps.

The 70 top Pentagon contractors channeled about $500,000 to the Bush reelection campaign, more than the companies gave to any other politician in the last decade. CP

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An Interview with Patrick Cockburn

A Reporter from Iraq

By OMAR WARAICH

The aptly named Frontline Club in London is a favorite haunt of war-weary foreign correspondents. Its walls are festooned with all manner of memorabilia: from Baghdad and Kabul license plates, to Osama Bin Laden t-shirts, to the front page of the September 12, 2001 edition of the *New York Times*. I met there recently with the veteran Middle East correspondent, Patrick Cockburn, to discuss his experience reporting the war over the last two years, the manner in which reportage from Iraq is fraught with difficulties, distortions and delusion, and his take on the Anglo-American invasion.

In contradistinction to many reporters from Iraq, you have covered the country extensively and over many years.

I covered the first Gulf War. I first went to Iraq in 1978, just before Saddam became president. He was already called the strongman of Iraq and was obviously "the guy in charge". This was just before he shot a third of the Revolutionary Command Council - the ruling politburo of the Ba'ath party. Then I went back intermittently during the Iran-Iraq war, and from the start of the invasion of Kuwait I was there pretty well continuously with few breaks, up to 1992. And then back again up to just before the start of the war in 2003.

I couldn't go back to Baghdad after 1999 because my brother, Andrew, and I had written a book on Iraq, *Out of the Ashes,* (later issued by Verso as *Saddam: An American Obsession*) which I knew they didn't much like. And so, I was restricted to Iraqi Kurdistan. Actually I was quite right not to return then. Some time after the war, somebody gave me an Arabic translation of the book which they found in the house of Sabawi - who was one of the half-brothers of Saddam - which had been translated by the Mukhabarat (Iraqi secret police), and was being sold in Al-Mutanabi Street, the main center for books in Baghdad, as an illegal photocopy.

How does that experience compare with the travails of reporting from Iraq during this war and just before it?

Funnily enough, the first Gulf war was far easier to report. There was one clear reason for this. Saddam had given instructions that foreign journalists were to be shown bomb damage. There was a long bombing campaign before the war started. And this order remained in place even during the ground war, so in fact you could drive almost anywhere in Iraq by simply saying that you wanted to see bomb damage, which I did. But also, rather amazingly, when the battle was raging they would still let you go anywhere.

> ***"You see people being killed merely because they don't understand American hand signals for directing traffic, which look like somebody giving signals to the deaf."***

The second time around, reporting has gone through a number of stages. It was difficult to begin with before the war, but perfectly doable. Then for a year after the fall of Saddam it was very easy. I could go almost anywhere in Iraq.

We would go to villages and towns where the Americans were making raids, and the people were very eager to talk. The local sheikhs would say that "The foreign press are the only protection we have, the only chance to get our story out about what is happening to us." That went on until April, 2004.

Did you receive a better reception, or were you at greater ease, in consideration of the fact that you were from the British press?

This was true until recently. But now it has got extraordinarily difficult, with dangers of two sorts. One is just commercial kidnapping. 99.9% of all people kidnapped in Iraq are Iraqis. The only ones to get publicity are foreigners or foreign reporters. And this makes it very to difficult to move around easily, or to make an appointment.

Are these kidnappings purely a commercial exercise? Is there a political element to them? And if so, to what extent do the factors intertwine?

There are political kidnappings too. It's obvious that the Islamic end of the resistance does not make any distinction between foreign journalists, or an American soldier, or a charity worker, or even an Iraqi Christian. In Mosul recently, Americans damaged a couple of mosques. The next thing that happened was that somebody blew up two churches, one Armenian, one Chaldean. So obviously somebody there thinks that there is no distinction between an Iraqi Christian and an American soldier. This makes it unlikely they will distinguish between a western journalist and a soldier.

What is your daily routine, if we can call it that? How far do you travel? Do you stay in Baghdad? Or do you go through periods of just being ensconced in your hotel room?

I live in the Al-Hamra hotel, where *The Independent's* offices are located. It's two modern buildings surrounded by these walls of concrete blocks that look like enormous gray tombstones, and they are spread all over Baghdad. There are guards all around the hotel - some paid for by the Western media there, particularly the American television corporations. Cars coming into the hotel are thoroughly searched for bombs. The guy doing the searches these days has a pole with a mirror at the end of it and a pistol in the other hand. The pistol is there, so he tells me, in case that there is a suicide bomber and he can shoot him before the bomb is detonated. Then there are more guards at the entrance to the hotel. Some of the floors in the first block of the hotel - where you have NBC and other media outfits - have a metal grill when you go up in the lift, and you encounter more guards behind it who open the gate.

Well, having security measures like that doesn't necessarily mean that you can't report. But often it leads to a sort of total siege mentality where people don't go out at all. In the mornings, many of the other journalists nervously ask around to see if anyone has been out.

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I try to be discreet. I sit in the back of a car. I make sure that the car isn't washed, so it looks just like another Iraqi car but difficult to see who is sitting inside. Some journalists have these four-wheel drives with open windows that make it obvious that there are foreigners in the vehicle. I don't go out of Baghdad because it has become too dangerous.

You see people being killed merely because they don't understand American hand signals for directing traffic, which look like somebody giving signals to the deaf. But it's not obvious to Iraqis, nor is it obvious to someone like me, as to what the American soldiers are directing you to do. But you get it wrong and you get shot.

There is enormous paranoia on the part of US troops, combined with enormous firepower. If there's any sort of attack, their orders are to open fire, in all directions. If there's a roadside bomb, treat it as an ambush. So, almost invariably, some Iraqi, sometimes inside a house or walking on the street, gets killed when there's any attack on American troops.

Nearly fifty journalists have been killed in Iraq. Are they shooting the messenger?

Yes, journalists are being targeted, and targeted by different people. The Americans don't like journalists to be around. And it's impossible to prove that they have opened fire on somebody because they are reporters or carry a camera. But it's very suspicious. When Tareq Ayyoub was shot, he was actually talking live on camera and nothing was happening when he was hit by a missile explosion.

Most of the journalists who died have been Iraqis working for the western media. The commercial kidnappers also target journalists, particularly Italian and French journalists, because they, rightly, believe that they can get more money. What is also clear is that the Islamic end of the resistance sees journalists and American soldiers as being pretty well equivalent.

So, the initial celebrations of a free press in Iraq were premature?

Look at what sparked off Muqtada al-Sadr's rebellion in the south of Iraq. Someone in the Coalition Provisional Authority informed me that Bremer was handed a translation of an unflattering article about him in Sadr's newspaper, *Al-Hawza.* Bremer was infuriated by this and shouted, "Close this rag down!"

Commentators in the West opine, rather bountifully, on the "Muqawa", the resistance in Iraq. Many would have us believe it is merely Zarqawi-ite "Islamo-fascists" that are offering violence in Iraq. What credence, if any, is there to these claims? And does the resistance claim any popular support locally?

Before the capture of Saddam, the U.S. and British generals in Baghdad emphasized that the resistance was all remnants of Saddam's regime. Then they had a bit of a problem when they actually captured Saddam. It actually validated what all of us believed, that there never was any real connection with Saddam. But then from January 2004, there was no briefing that you could go to in Baghdad, by the Coalition Provisional Authority, where Zarqawi wasn't mentioned or blamed. It was almost a parody. Any question asked by a journalist and you would get Zarqawi. Why is there a water shortage? It's Zarqawi. Why does my toothpaste taste different? Zarqawi strikes again!

At last count, I think there are 38 different organizations that are claiming attacks on the Americans. It's a very complicated jigsaw. It is important to realize, in the beginning, the main motive is a very simple one, that the Iraqis - like everyone else in the world - don't like to have their lives controlled by foreigners and foreign troops. All this happens in the context of an understandable and predictable hatred of occupation felt by anybody who's being occupied.

Often people start by saying, "But, the resistance is clearly violent and bigoted Salafi or Wahhabi groups, or they are remnants of the ancient regime." Leave aside how true this is--and there is an element of truth in this--the really important question to ask is, why is it that they are able to operate in Iraq? Why is there sufficient sympathy among large groups for these often pretty ruthless types? This is the most important question. The antipathy to the occupation is, aside from Kurdistan, universal.

The last poll I saw showed that 82% of the Sunni Arabs want the US to withdraw now or in the near future. That is somewhat predictable, but the figure for Shi'a Arabs was 69%.

Even when I have traveled in the Shi'a areas, often after a bomb directed at say police recruits, people I speak to around the site say, "Why are they attacking Iraqis like this, why don't they kill Americans instead?" The first part of the sentence often appears on American television. The second part, very seldom, is ever mentioned.

A couple months ago, the Iraqi Interim government released figures stating that there were some 200,000 members of the insurgency. This must afford the Americans awful anxiety.

I don't believe these figures, nor do I think anybody knows. It's always difficult to estimate numbers of guerrilla fighters. People try to draw up neat lists of who are professional full-time fighters, as if these guys clock in and clock out everyday, are interested in their pension rights and contractual obligations. And secondly, there are part-timers too. There is a reality to this in terms of Iraqis having intense loyalties to their district, their towns, their cities, their extended families. Iraqi nationalism also holds great sway.

Will the recent, much-vaunted elections mark a new stage in Iraq?

First of all, I think it was CNN, had "Transfer of Power" across the top of the screen as a logo. Was power really transferred? There is no government at the moment in Iraq, and the question to ask is who really holds power in Iraq? The answer is, obviously, the American army of 150,000. This government wouldn't exist without American military force, so it's not really a transfer of power. And the members of this government, leaving aside the Kurds who are a special case, often don't leave the Green Zone unless they have western bodyguards. Many people voted, the Shi'a population voted, for a transfer of power to Iraqis but it is doubtful how much real power has been transferred. Does the American embrace of the Iraqi Shi'a not seem disingenuous? If you are part of SCIRI in Iraq, you are a pioneer of democracy. If you are part of SCIRI in Iran, you are part of the Axis of Evil. And if you are a part of Hezbollah in Lebanon, then...

Washington sometimes draws comfort from the fact that it is only fighting Iraqi Sunnis, which is largely true. That's four or five million people. But what if the Shi'a turned against them as well? They couldn't hold Iraq. The inability of the US to coerce only one Iraqi community shows their basic weakness. The number of actual combat troops that they can put on the streets is very limited.

They do not have the military strength to control Iraq, or to turn whatever military strength they do have into an outright political victory. CP

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(Dollar *continued from page 1)*
ment is now spending about $400 billion more per year than it receives in tax revenues; and second, our trade deficit, the fact that, as of 2004, we were purchasing $641 billion more in imports than businesses in the U.S. export to other countries.

When the U.S. government runs a fiscal deficit, this means that it is issuing bonds that somebody has to want to buy. Somebody has to be willing to lend the U.S. government money, exactly as is true when somebody lends money to a business to construct an office building or to a consumer to buy a new car.

Who is lending to the U.S. government now? In fact, there has been a hefty increase over past decade in the share of U.S. Treasury bonds held by foreigners, both foreign governments and private citizens. In 1984, foreigners held 14.7 per cent of U.S. Treasuries, and that figure rose only modestly, to 18.3 per cent, by 1994. By 2004, the ratio had risen to 43.5 per cent. The Japanese are the most voracious purchasers of U.S. government bonds, holding 36 per cent of all foreign bond holdings, with the Chinese next, at 11 per cent. South Korea, the U.K. and Taiwan come next, all holding between 3 – 4 per cent of the total foreign holdings.

How did these foreigners – governments and private bondholders alike in Japan, China, Korea and the rest – get such a large enough supply of U.S. dollars in the first place, with which to buy U.S. government bonds, i.e. with which to *l*end dollars to the U.S. government itself? This is where our trade deficit comes into the picture. The foreigners holding dollars obtained this money primarily through being successful at exporting products into the U.S. economy. The U.S. has been running a trade deficit every year since 1976, with the size of the deficit growing rapidly in recent years. In 2004, the trade deficit reached its largest level ever as a slice of the economy, at 5.5 per cent of GDP.

Generally speaking, countries simply cannot run persistent trade deficits. They can't buy more from other countries than they sell to them year after year. This is the same principle that applies to most people: we can't persistently buy more things from everybody else than we sell to them. As an individual, if I persistently buy more from everybody else than I sell to them, the only way anybody else might be willing to keep buying from me is if I have some store of assets, above and beyond what I am currently producing, that other people want to buy. Even if you have no interest in hiring me as an employee, or in buying multiple copies of my economics class notes, I may be able to keep buying from you if I could sell you my house, car, or refrigerator.

In the case of most countries, they do not have a sufficient supply of houses, cars, or refrigerators that other countries are interested in buying. But the United States does still have a sufficiently large stock of such things, and many other valuable assets, that people want to buy. This creates a built-in demand for dollars in the global economy that is sustained even when foreigners are uninterested in increasing the amount of goods and services that they buy from the U.S.

There is another factor establishing a persistent demand for dollars among countries exporting to the U.S. At present, the U.S. dollar is the primary currency used in all international trading. This means that, in most international transactions – among South Africans and Brazilians as much as between the U.S. and all the trading partners of the U.S. – the U.S. dollar is the currency in which the transaction takes place. Thus, Chinese, Japanese, South Koreans, Brazilians, and South Africans all have a desire to hold dollars independent of whether they want to buy anything in the United States.

There is a third factor at play. This is that other countries want to continue succeeding in selling products in the U.S. market. Having a high value for the dollar relative to their own currency is crucial to the success of their export strategies. Consider the case of China selling garments in the U.S., such as a shirt from China that will sell for $10 in the U.S. market. Let's say the value of the Chinese yuan rises relative to the dollar by 20 per cent. This means that the shirt will now sell in the U.S. for $12. China will then obviously sell fewer shirts in the United States. This is why the Chinese have a vested interest in keeping the value of the dollar high, and to even intervene in foreign currency markets to prop up the dollar relative to the yuan.

But what if the Japanese and Chinese are no longer able to afford to prop up the dollar? This could well lead to a rapid dollar plunge, which in turn could produce a global financial crisis. This is because all banks, corporations, and rich private individuals throughout the world that are holding their wealth in the form of dollar assets would start becoming less rich very quickly. When banks, corporations, and rich individuals start becoming less rich, they would then have less money for investment or to lend out to for others to invest. Economic growth would be very difficult to sustain under such circumstances. The collapsing dollar would also feed on itself. There would be increasing pressure for people to exchange their dollars for other assets – euros, land, buildings, gold, among other assets – whose value would be rising relative to the collapsing dollar. This would only increase the downward pressure on the dollar, deepening a crisis.

For the U.S economy, it would also mean that the days of running large and growing trade deficits and fiscal deficits would be over. We would have to stop buying so much from abroad, and this, in turn, would mean that opportunities for businesses in other countries to sell in the U.S. would dry up. The Chinese growth miracle would certainly be stymied. This in turn would send negative reverberations throughout South East Asia, since at present the Chinese are heavily importing from these countries with earnings from their exports to the U.S.

Closing the U.S. fiscal deficit would entail some combination of two measures:

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1) increasing taxes; or 2) cutting government spending. Given the reality of a Bush White House and a Republican-controlled Congress, we can be sure that the solution they would pursue would be spending cuts – specifically cuts in social spending, not cuts in their priority projects, such as occupation in Iraq or other imperial ventures.

A precipitous fall of the dollar is a real possibility. But the people who run global economic policy at the U.S. Treasury, the Federal Reserve, Wall Street, and the International Monetary Fund all know this. As such, they no doubt have developed thick dossiers full of possible policy interventions they could pursue to avoid a crisis. The most likely is that the U.S. government would make every effort to keep propping up the value of the dollar, or at least ensuring that its decline would proceed more deliberately, thereby assisting the Japanese and Chinese in the role they have been undertaking for us.

Short of eliminating the budget and trade deficits, the only way the U.S. government can prop up the dollar is for Alan Greenspan and his successors at the Fed to raise interest rates. The more the Fed raises interest rates, the more attractive U.S. government bonds become. This counterbalances the downward pressure on the dollar from the trade and budget deficits.

But of course the Federal Reserve cannot raise interest rates without creating other problems. The rise in interest rates itself will slow down the U.S. economy by making borrowing more expensive. Business investments and home buying will both become more difficult. At the same time, the rise in interest rates will redistribute income from those who borrow money – mainly the working class and middle class – to those who have money to lend, the wealthy. In short, to avoid a potentially calamitous decline of the dollar, the U.S. government will need to impose a more gentle form of austerity and upward income redistribution. This, then, would be the relatively "positive" scenario through which the Bush administration might work its way out of the fragile global financial environment created by the trade and fiscal deficits.

Much more favorable (meaning egalitarian) scenarios could be pursued if there were strong enough political movements in place to demand them. The most immediately available favorable option would be for the European governments to stimulate their economies through more government spending, while the U.S. government concurrently shifted its spending priorities to areas such as education, environmental protection, and health care, where lots of jobs can be created quickly, as opposed to the military, which is (among its other objectionable features) very inefficient as a jobs-generating program.

The European stimulus would weaken the euro relative to the dollar, since global financial markets would want to register their disapproval of Europe's fiscal laxity. Increased government spending in Europe would also likely generate an uptick in inflation there, also bad form in the eyes of currency traders. But more important, both Europe and the U.S. would be generating economic growth and job expansion mainly on their own, without having to worry so much about penetrating each other's markets through relative shifts in the value of the euro and dollar. Finally, faster job growth in both the U.S. and Europe would mean that these rich regions of the world would feel less threatened by exports from the developing countries, and would therefore be willing to maintain their currencies at levels which allowed for developing countries to successfully sell to them.

Of course, details of this approach would need to be addressed. For example, should the U.S. and Europe remain neutral on the fact that China's export success is, in large part, the result of Chinese workers being paid abysmal wages and being denied basic human rights? Could China and other developing countries realistically stimulate their economies through promoting the rise of living standards in their own countries, and thus the development of their domestic markets?

But such questions are actually easier to handle than the realistic possibilities now staring U.S. policymakers in the face: either a dollar collapse or a U.S. slowdown brought on by a "successful" intervention of raising U.S. interest rates. CP

Robert Pollin is professor of economics at U. Mass, Amherst and has been deeply involved in the Living Wage campaign. He is working on a book about alternative economic strategies to neoliberalism and is author of Contours of Descent*, to be issued in June by Verso as a paperback, with new material.*

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